

Message Text

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ACTION ARA-10

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E.O. 11652: N/A

TAGS: EINV, EMIN, EFIN, PE

SUBJECT: SPCC - NEW PROBLEM ARISES

REF: LIMA 5687

1. SPCC REPS BRYAN WHITE AND RICHARD RUBY MET MORNING OF JULY 7 WITH EMBASSY ECON COUNSELOR AND ECON OFFICER PRIOR TO MEETING LATER IN DAY WITH PERU CENTRAL BANK PRESIDENT CARLOS SANTISTEVAN. WHITE AND RUBY USED MEETING TO INFORM EMBOFFS OF RESULTS OF SPCC'S INTER-CREDITOR MEETING IN LONDON (LIMA 4589). ACCORDING TO WHITE, THE TWO MAJOR TOPICS AT LONDON MEETING WERE (A) THE EXTENSION OF THE TEMPORARY WAIVER ON SPCC'S DEBT LIMIT, DUE TO EXPIRE THIS MONTH, AND (B) THE APPROVAL OF THE MAJOR FINANCING PACKAGE FOR SPCC. WHITE STATED THAT THE CHASE MANHATTAN REPRESENTATIVE HAD MADE A GOOD PRESENTATION AND APPEARED OPTIMISTIC THAT THE CREDITORS WOULD APPROVE THE NEW LOAN. ONE MAJOR CONCERN, OF COURSE, WAS THE OUTSTANDING TAX CASE (LIMA 5687).

2. WHITE NOTED THAT SANTISTEVAN HAD TELEPHONED HIM IN U.S. ON JULY 6 AND HAD ASKED HIM TO COME TO LIMA JULY 7 TO DISCUSS TAX CLAIM MATTER. ACCORDING TO WHITE, SPCC

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HAD BEEN GETTING SIGNALS THAT THE GOP WOULD BE WILLING

TO ACCEPT THE TAX PAYMENT IN "ORIGINAL" SOLES, I.E., THAT SPCC COULD MAKE PAYMENT IN SOLES, WITH TOTAL TAX LIABILITY VALUED IN SOLES AT THE AMOUNT ORIGINALLY ASSESSED. THUS, AFTER THE DEVALUATION, SPCC'S LIABILITY WOULD DROP IN DOLLARS FROM \$40 MILLION TO \$25 MILLION. WHITE HOPED THAT THE JULY 7 MEETING WITH SANTISTEVAN WOULD CONFIRM THIS. HE ALSO HOPED THAT SANTISTEVAN WOULD INFORM SPCC THAT THE TAX PAYMENT COULD BE MADE ON A DEFERRED SCHEDULE.

3. TURNING FROM THE TAX CASE, WHITE DESCRIBED ANOTHER AND POTENTIALLY MORE SERIOUS PROBLEM WHICH HAD JUST BEEN BROUGHT TO HIS ATTENTION BY LOCAL SPCC REP FRANK WISE. APPARENTLY MINPECO HAS BEEN USING THE DOLLAR CERTIFICATES IT COLLECTS FROM SALES OF COPPER FROM SPCC'S TOQUEPALA MINE FOR PURPOSES OTHER THAN THE INTENDED PAYMENTS TO SPCC. THUS, ACCORDING TO WISE, MINPECO HAS NO MONEY TO PAY SPCC. WHITE SAID THAT HE WAS GOING TO TRY TO VERIFY THIS STATEMENT IN THE COURSE OF THE DAY. IF CORRECT, HE INDICATED, IT MEANT THAT SPCC WOULD PROBABLY HAVE TO BE IN DEFAULT TO U.S. BANKS, SINCE THESE COLLECTIONS WERE TO GO FROM SPCC TO REPAY THE BANK LOANS. THIS WOULD MOST SERIOUSLY AFFECT PENDING LOAN NEGOTIATIONS.

4. TURNING HIS ATTENTION TO THE RECENT ECONOMIC MEASURES UNDERTAKEN BY PERU (LIMA 6017). WHITE SAID THAT IF 15 PERCENT TAX ON EXPORTS TURNED OUT TO BE PERMANENT RATHER THAN LIMITED "WINDFALL" TAX, THEN NEW YORK BANKERS HE HAD TALKED TO PRIOR TO HIS TRIP WOULD FEEL THAT GOP FINANCIAL MISSION DUE IN NEW YORK ON JULY 12 WAS IN EVEN WEAKER POSITION THAN ON EARLIER VISIT. HIS POINT WAS THAT THE 15 PERCENT TAX ERASES BENEFITS OF DEVALUATION FOR EXPORTERS AND THAT IF IT IS A PERMANENT TAX THE TOTAL GOP ECONOMIC PACKAGE WOULD NOT BE AS CONVINCING TO INTERNATIONAL BANKING COMMUNITY. WHITE SAID THAT HE HOPED TO EXPLORE THE POSSIBILITY DURING HIS MEETINGS WITH GOP OFFICIALS THAT 15 PERCENT TAX IS TEMPORARY. HE AGREED WITH ECON COUNSELOR THAT GOP PACKAGE WOULD BE EVEN MORE ATTRACTIVE IF IN ADDITION TO DEVALUATION IT HAD INCLUDED MODIFICATIONS OF THE LABOR STABILITY AND LABOR COMMUNITY LIMITED OFFICIAL USE

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LAW. NEVERTHELESS, WHITE FELT THAT GOP MISSION COULD BE SUCCESSFUL IN ITS NEW YORK VISIT IF IT WOULD MAKE DECISIONS DESIRED BY THE MAJOR LENDERS ON TWO IMPORTANT POINTS: (A) DEFERRED PAYMENT OF SPCC'S TAX LIABILITY, AND (B) SETTLEMENT OF THE MARCONA CASE.

5. WHITE AND RUBY WILL CALL ON AMBASSADOR MORNING OF JULY 8 TO REPORT ON OUTCOME OF MEETINGS WITH SANTISTEVAN

AND OTHERS.

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